

**INVESTIGATIVE AUDIT OF THE RECORDS  
OF THE CITY OF MOSCOW  
FOR THE PERIOD JULY 1, 2002, THROUGH JUNE 30, 2003**

**FINDINGS AND RECOMMENDATIONS**

1. **FINDING:**     **Inadequate supporting documentation and failure to obtain required approval for disbursements**

The city apparently purchased a John Deere LT 155 lawnmower from the brother of the city administrator. The city paid for that purchase with three checks for \$500 each issued October 15, 2001, November 1, 2001, and December 1, 2001. However, the city administrator was unable to provide invoices or documentation of board approval supporting this purchase.

Our investigative audit revealed other instances in which supporting documentation was inadequate and board approval had not been documented.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 4, states:

Municipal officials should ensure . . . that supporting documentation is filed alphabetically by vendor or by date paid. . . . All disbursements, regardless of the accounting procedures, must be supported by invoices, cash tickets or other adequate supporting documentation. (Statements are NOT adequate supporting documentation.)

Section 3 of the manual requires that the related documentation accompany checks presented for approval and signing.

The Charter of the City of Moscow, Private Acts 1991, Chapter No. 77, Section 30, states that purchases of more than five hundred dollars (\$500) shall require prior approval of the board.

Section 31 of the charter further states:

Any contract or agreement made in violation of the provisions of this charter or ordinances of the city shall be void and no expenditure shall be made thereunder. Every officer and employee who shall knowingly make or participate in any such contract or agreement, or authorize or make any expenditure thereunder, and their sureties of their official bonds, and every person who shall knowingly receive such a payment, shall be jointly and severally

liable to the city for the full amount so paid or received. A violation of this section by any officer or employee shall be cause for his removal.

**RECOMMENDATION:**

To document that each disbursement is for a valid municipal purpose, officials should ensure that adequate supporting documents are maintained in the municipality's files in accordance with the *Internal Control and Compliance Manual for Tennessee Municipalities*. Before signing a check, authorized individuals should review adequate supporting documentation to determine that the disbursement is for a valid municipal purpose. In addition, when applicable, board approval should be sought and documented in the minutes of the meetings of the mayor and board of aldermen.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. All purchases over \$500 will be presented to the board. We have implemented a purchase order system for each department. Purchase orders will accompany invoices and the bill before payment. We have purchased a paid stamp.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

2. **FINDING:**    **Invoices not properly canceled or promptly paid**

The city administrator failed to cancel all invoices as paid. In addition, we determined that some invoices were not paid until past due, resulting in the city incurring finance charges. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 3, states, "Municipal officials should ensure . . . that personnel cancel invoices, writing on each one the check number, amount, payment date, and account to be charged before the checks and documentation are submitted for approval and signing."

**RECOMMENDATION:**

To decrease the risk of unauthorized and duplicate payments, the city administrator should cancel all invoices when paid, noting check number, amount, payment date, and the account to be charged. To avoid unnecessary expenditures, the city administrator should pay obligations before finance charges are incurred.

**MANAGEMENT’S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. We have purchased a paid stamp and due to the improvement in the economy and cash flow, all bills will be paid on the 10<sup>th</sup>.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

3. **FINDING:    Failure to use prenumbered purchase orders**

The city administrator did not always use prenumbered purchase orders to initiate purchases. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 1, outlines recommended purchasing policies which require the use of prenumbered purchase orders.

**RECOMMENDATION:**

To indicate sufficient balances and appropriateness of disbursements, the city administrator should complete and approve prenumbered purchase orders for all purchases. Purchase orders should be approved before obligations for purchases are made.

**MANAGEMENT’S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. We have purchased prenumbered purchase order books for each department.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

4. **FINDING:    Utility accounts receivable reconciliation not performed**

The municipality’s records did not include documentation of a monthly reconciliation of utility accounts receivable as reflected in the utility billing register to the general ledger control account. Neither a general ledger nor accurate billing records were maintained. Also, as noted in Finding 5, the city administrator did not separately record collections for meter deposits, penalties, etc. Therefore, information was not available for performing the

reconciliation. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 3, Section 10, states, “Municipal officials should ensure that . . . the total amount of the unpaid individual accounts on the utility billing sheet is reconciled to the applicable general ledger control account total at the end of each month.”

**RECOMMENDATION:**

To detect errors or irregularities promptly, municipal officials should ensure that a monthly reconciliation of the detail listing of accounts receivable in the billing register to the general ledger control account, is performed and documented.

**MANAGEMENT’S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. We are checking into the possibility, on the computer program we have, of breaking down the principal amount and P&I and at the end of the month having a report so we can reconcile.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

5. **FINDING: No record of adjustments to utility bills, no documentation of approval of adjustments, and inadequate utility collection records**

The city administrator did not maintain a record of adjustments to customers’ water and sewer bills and failed to document that adjustments were approved by the governing body. We also noted that the city administrator failed to separately record collections for meter deposits, penalties, etc. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 3, Section 3, states:

Municipal officials should ensure that . . . charges disputed by customers are investigated and adjustments are approved, in accordance with the municipality’s policy, by someone other than the bookkeeper handling receipt and payment records.

Section 4 of the manual requires municipal officials to ensure that

. . . documentation of each adjustment is required and retained. Adjustments to billings for meter reading and other errors should be recorded in the billing register. All adjustments to customers’ bills should be approved by the governing body or its designee.

**RECOMMENDATION:**

To ensure accountability for all billings and for determining expected collections, the city administrator should prepare and retain detailed documentation of each adjustment. Each adjustment should be approved by the governing body or its designee. The approval should be adequately documented and maintained in the municipality's records. Penalties and deposits should be separately recorded in the city's records.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. All future adjustments will be given to the board to review. Action will be recorded as part of the official minutes.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.

6. **FINDING: Inadequate minutes of meetings**

Complete minutes of meetings of the mayor and board of aldermen were not readily available, but instead, were scattered throughout several different locations in the city's records. Minutes of several meetings of the mayor and board of aldermen were not signed to document approval. Minutes of several meetings of the mayor and board of aldermen were only signed by the city administrator.

Section 8-44-104, *Tennessee Code Annotated*, states:

The minutes of a meeting of any such governmental body shall be promptly and fully recorded, shall be open to public inspection, and shall include, but not be limited to, a record of persons present, all motions, proposals and resolutions offered, the results of any votes taken, and a record of individual votes in the event of roll call.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 1, Section 4, requires that complete minutes of actions taken by the legislative body be maintained and provides a list of items which should be included in the minutes.

**RECOMMENDATION:**

To ensure that action taken by the governing body is adequately documented, officials should ensure that the city administrator maintains complete minutes of all meetings of

the governing body. The minutes should be kept at the municipality's office and be available for public inspection. The mayor and city administrator should sign the minutes to document approval.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur. In order to have the minutes signed without any delay, once they are approved at the meeting, we will then have the mayor or her designee sign and place in the official minute book.

**City Administrator:**

Response is the same as that of the mayor and board of aldermen.